

**Minutes of the Regular Meeting of the Okanogan County
Public Utility District Board of Commissioners
Held in Okanogan June 24, 2003**

Present:

Board:	Donald Johnson, David Womack, Darrel Bunch
Staff:	Harlan Warner, Don Coppock, Derek Miller, Fred Burke, Joe Miller, CJ Hack, Dan Boettger, Debra Peters, Steve Brown, Julie Pyper
Other:	Michael Howe, Legal Counsel Ellen Hall - Tetra Tech FW via conference call
Public:	Dave & Esther Johnson, Ann McCreary, David Kliegman, Maeyowa, David Sexton, Brian Kirchner, Roger Bauer, Susie Ives, John Andrist, George Wooten, Vicky Welch, Gary Ott, Toyne Tibbets, Mike Brooks, Jason Dudgeon

President Johnson called the meeting to order at 8:30 a.m.

Summary Agenda

1. Approval of Minutes
2. Approval of Work Orders
3. Approval of Vouchers
4. Approval of Transfer of Accounts
5. Slice Operating Reserves – Seattle City Light
6. Point-to-Point Transmission Sales
7. BPA SN CRAC Proposal
8. Resolution No. 1258 – PURMS Property Amendment
9. Telecommunications Report – Wireless
10. Staff Response to Commissioner Johnson’s Conclusions re: Mediation
11. Vicky Welch – Methow Transmission Line
12. George Wooten – Methow Transmission Line
13. PACE/Maeyowa – Methow Transmission Line
14. Tetra-Tech Proposal on EIS
15. Resolution No. 1259 – Non-Treaty Storage Agreement
16. Election of New Officers
17. Meetings
18. Public Comment
19. Executive Session - Litigation

1. Approval of Minutes:

Commissioner Bunch moved to approve the Minutes of the June 10, 2003 regular meeting; Commissioner Womack seconded.

Commissioner Womack presented the following amendment:

5. – Public Comment:

Carol Alexander said ~~the public was~~ **she would be** opposed to eliminating the first public comment period.

Auditor Coppock presented the following amendment:

7. – 2001 Revised Audit:

(Re: Buy-Back Program)

The alternative was to do nothing and wait out the ~~two-year~~ **remaining** period, and the District would have lost the full amount.

Commissioner Johnson submitted his additional audit highlights regarding the Okanogan PUD Buy-Back Program, and presented the following amendments to the Minutes:

6. – Methow EIS Revised Proposal:

Commissioner Johnson pointed out that that distribution improvements of \$3,666,000 have been on the table with the Loup-Loup alternative since that alternative was considered. Commissioner Johnson added that 15 miles of transmission line in the lower valley has never been a considered alternative in any report or cost estimate that he has seen.

7. – 2001 Revised Audit:

(Re: Buy-Back Program)

Attorney Howe noted that the District could have held the party to the contract, but the party ~~would~~ **may** not have turned the power on

Commissioner Johnson disagreed that it was in the best interest of the District to not enforce the contract and not collect the \$127,000 as called for.

Commissioner Johnson pointed out that expressions of interest are not legal commitments.

(Re: Diesel Generators)

Commissioner Johnson stated that 1) Buying diesel generators beyond the 7 for \$4.6 million did not qualify as an emergency; 2) Additional generators, bringing the total to 16 purchased and 6 leased, were purchased for the stated purpose of meeting a power shortfall projected for February 2002 (11 months later), which did not "...present a real, immediate threat..."; 3) "By not following bid laws the District could not be assured it obtained the best possible price, nor were all possible vendors provided an equal business opportunity"; (this was a \$10.8 million sale).

Power Resource Engineer Felton submitted the following correction due to an error in subtraction:

9 – Power Supply Report:

By the end of May 2003, he calculated the District was about ~~\$2 million~~ **\$846,000** over the original estimated revenues after taking into account lost retail revenues and other factors.

The motion passed as amended.

2. Approval of Work Orders:

The following work orders were submitted for approval:

02-0223	District	\$22,000.00
03-0255	District, Horse Spring Coulee	3,500.00
03-0266	GTE-Northwest, Old Hwy. 97/Monse Cutoff Rd., Brewster	664.00
03-0275	District, Crawfish Lake Rd.	2,050.00
03-0277	Betty Sonsteng, Wannacut Lake Rd.	587.00
03-0278	Paul Matthews, Lemanasky Rd.	5,384.00
03-0280	District, Hwy. 20/Lower Beaver Creek Rd.	1,824.00
03-0281	Virgil Rogers, Hwy. 153	1,163.00
03-0282	Robert Scarlett, 74 High Valley Rd. E., Tonasket	5,535.00
03-0284	District, Okanogan 115 KV Sub.,	8,523.00
03-0285	Jerry Tretwold, 712 Plaza Way, Brewster	1,767.00
03-0286	Chester LaFontaine, 454 Eastside-Riverside Rd.	537.00
03-0292	Ryan Harvey, Old Riverside Hwy.	1,512.00
03-0293	Shep Kuester, 2244 Hwy. 153, Carlton	522.00
03-0298	Colville Tribal Health, Benton St., Omak	10,353.00
03-0307	Dennis Caldwell, 60 Ed Figlenski Rd.	5,137.00
	Total	\$71,058.00

Commissioner Bunch moved to approve the work orders; Commissioner Womack seconded; motion passed.

3. Approval of Vouchers:

Vouchers No.'s 77477 through 77504 in the amount of \$168,252.92, No.'s 77505 through 77515 in the amount of \$902.40, and No.'s 77516 through 77624 in the amount of \$418,342.79 were approved for payment from the revenue fund.

Commissioner Bunch moved to approve the vouchers; Commissioner Womack seconded; motion passed.

4. Transfer of Accounts:

The following accounts were submitted for write-off/collection due to nonpayment:

Berger, Margaret	\$14.47
Caldwell, Linda S.	6.40
Cline, Harvey, Jr.	259.25
Fister, Miranda R.	311.49
Gorr, Geraldine V.	45.33
Hall, Dan L.	370.93
Hernandez, Christina	349.70
Kleven, Jerome	111.31
Luther, Jeremiah & Dorian	61.54
National Men's Council Against Abuse	114.50
National Men's Council Against Abuse	420.96
Ochoa, Arnulfo	18.93
Ruiz, Marcos, Jr.	497.95
Stokes, Mary Kathleen (Kathy)	171.00
Total	\$2,753.76

Commissioner Bunch moved to approve the account transfers; Commissioner Womack seconded; motion passed.

5. Slice Operating Reserves – Seattle City Light:

At the last Board meeting, Larry Felton discussed a proposal to purchase Operating Reserves from Seattle City Light at a savings of \$30,000/year over the current \$250,000/year the District pays to BPA's Transmission Business Line to purchase this requirement.

Manager Warner presented a one-year Agreement for Third Party Operating Reserve Services with Seattle City Light. He noted that every generating utility is required to purchase or self-supply Operating Reserves, and the District must provide or arrange for this provision under the BPA Slice Power Sales Contract. BPA's minimum generation requirement for Operating Reserves is 150 annual aMW, which the District does not have. With excess reserves, Seattle City Light has the ability to supply Operating Reserves. To obtain services from Seattle City Light, the District must sign a contract by June 24, 2003 to allow adequate time to notify BPA regarding the supplier change effective October 1, 2003.

Commissioner Bunch moved to authorize the Manager/staff to enter into an Agreement for Third Party Operating Reserve Services with Seattle City Light; Commissioner Womack seconded; motion passed.

6. Point-to-Point Transmission Sales:

Manager Warner reported that the District presently has surplus power that can be sold as excess Point-to-Point (PTP) transmission capacity under the BPA PTP contract. He presented a Confirmation Agreement effective July 1, 2003 through October 31, 2003 to confirm a transaction between the District and Idaho Falls Power regarding the sale of 10

MW (29,530 MWh) of Okanogan PUD Point-to-Point (PTP) Transmission on the BPA transmission system. The District will realize \$59,060 on the negotiated sale of \$2.00/MWh provided in the Agreement. (The District is currently paying about \$1.25/MWh.)

The Manager discussed the need to act on short-term surplus contracts as they come forward due to the limited timeframe of being notified and needing to act prior to a Board meeting.

Commissioner Bunch moved to authorize the Manager to enter into surplus Point-to-Point Transmission Agreements without obtaining prior Board approval, but to make periodic reports to the Board on the Contracts that were signed; Commissioner Womack seconded; motion passed.

7. BPA SN CRAC Proposal:

Manager Warner reported that BPA's Safety Net Cost Recovery Adjustment Clause (SN CRAC) has reduced from an average 30% to an average 15%, which has lowered overall projected BPA rates from 15% to 5%.

In a press release dated June 16, 2003, BPA estimates its wholesale power rates could go up approximately 5% over current rates for the next three years beginning October 1, 2003. This is significantly less than the 15% increase proposed last February. It was noted in the press release that revenue from sales of surplus power into the market holds down the rates of BPA's Pacific Northwest customers. The final number, however, will depend on any additional cost or revenue changes when BPA reviews the situation in August.

Because the Load-Based CRAC that applies to Slice has gone down, the affect on the District is expected to be less than 5% and could be close to zero.

8. Resolution No. 1258 – PURMS Property Amendment:

Fred Burke, Okanogan PUD representative and 2003 Chairman of the Administrative Committee of Public Utility Risk Management Services (PURMS), and Commissioner Womack, Board member representative, attended the PURMS semi-annual board meeting in Seattle on June 12, 2003.

The PURMS Property Insurance Pool started in April 1997 with 15 original pool members insured for similar risks, with a flat \$250,000 retention on all risks and a flat \$250 deductible on all claims. When some members chose self-generation as an option to fill their energy supply deficiencies subsequent to the 2001 energy crisis, there were new risks, greater loss potentials, diverse exposures, and a realization of inequity in assessments and premiums.

Mr. Burke discussed amendments made to the Property General and Premium Assessment Formulas, the General Property Coverage and the Definitions sections of the PURMS Joint Self-Insurance Agreement. To ratify the Resolution adopting the amendments, all 18 members had to reach unanimous agreement.

The fund's Assessment Formula of 10% equal, 20% pro-rata and 70% fire rated was changed to 10% equal, 20% pro-rata, and a standard insurance practice of 70% risk based (pro-rata value times risk category weighting factor). Mr. Burke noted that when the Property Insurance Pool was first established, Okanogan PUD had one of the highest fire ratings of the members due to its remote location. Following the District's request for review by the Rating Bureau, Okanogan PUD's portion of the assessment was reduced by about \$10,000.

The fund's Premium Formula of 10% equal, 20% pro-rata and 70% fire rated was changed to 10% equal and 90% risk based (pro-rata value times risk category weighting factor), which passes the excess carrier's risk perception through to each utility. A 50% - 100% increase in excess coverage premium has been experienced over the last two years.)

Other changes noted were the varying retentions (i.e. \$250,000 base retention; \$350,000 gas turbine generation, \$500,000 reciprocating engine generation, \$750,000 flood and 3% - 5% earthquake). Extended coverage was approved at 100% to \$750,000 and at 50% above \$750,000. Mandatory increased deductibles were established at \$75,000 for increased retention items, however, Mr. Burke negotiated a boiler and machinery coverage opt-out for Okanogan PUD on mothballed generation facilities, returning its deductible to \$250. If the diesels were to be fired up now, boiler and machinery coverage would be reinstated but would have to be maintained for a minimum one-year period.)

Mr. Burke presented Resolution No. 1258 ratifying the changes and declaring approval of Resolution No. 6-12-03-1 enacted by the Board for the PURMS Self-Insurance Fund adopting amendments to the Property General and Premium Assessment Formulas, the General Property coverage and the definitions sections of the PURMS Joint Self-Insurance Agreement, effective as of November 21, 2002.

Commissioner Womack moved to adopt Resolution No. 1258; Commissioner Bunch seconded; motion passed.

9. Telecommunications Report – Wireless:

Joe Miller, Telecommunications Manager, presented a business plan for providing large numbers of home and small-office users with network to the home. The proposed network deployment would be open access for retail providers to install end-user equipment, sell their services over the system and be the customer point of contact, with the PUD owning the infrastructure. The charge to the retailer would follow the same pricing structure as fiber (i.e., \$20 plus \$2 per VLAN). The network deployment would complement the fiber deployment, and also increase Okanogan PUD wholesale NoaNet

Internet sales. In a live demonstration, CJ Hack, Telecommunications Technician, demonstrated the capabilities of a broadband access to the Internet. Through a retail provider, customers living within 10 miles line-of-sight would be able to access the network with a wireless transmitter/receiver. (A map of the 10-mile radius will be made available on the District's website.)

The proposed network deployment requires a \$700,000 District net capital outlay, taken from a \$7 million fiber loan (\$5.6 million spent to date) from the electric ratepayers. (To reach the same number of customers with fiber would require at least \$4 million plus two or more FTEs.)

The business plan proposes a pilot project with two access points this year (Oroville and the Okanogan/Omak area). If successful, the plan is to deploy all access points in the business plan by this time next year (Oroville, Ellisforde, Tonasket, Riverside, Omak, Okanogan, Malott, Brewster and Pateros). A demonstration at the Okanogan County Fair by retailer providers is planned to gauge customer interest in determining the District's node deployment.

The Board deferred action on the matter, giving time for any interested parties to comment on the proposal at the next Board meeting.

10. Staff Response to Commissioner Johnson's Conclusions re: Mediation:

Chief Engineer Derek Miller responded to Commissioner Johnson's conclusions regarding his interpretations from the March 18, 2003 Special Board Meeting in Twisp, and to the system analysis as submitted in mediation regarding the Methow Valley power supply.

Commissioner Johnson requested that staff provide him the historical peak load on the transmission line between the Brewster and Okanogan substations.

11. Vicky Welch – Methow Transmission Line:

Vicky Welch submitted comments regarding the need to practice fiscal conservatism, as she feels the main economic problems the PUD has experienced the last few years are regarding overestimating demand. She urged the Board to avoid undue financial burdens on ratepayers by first doing what has to be done anyway -- upgrading a 55-year old distribution system could provide needed voltage regulation and increased capacity at a far lower cost than other options, and upgrading existing transmission lines where they are overloaded is far more economical than putting in new lines. She feels the PUD is under no obligation to contract with Tetra Tech FW, and that the Board should initiate a new bidding process for environmental consulting services for the transmission line project.

The Board recessed for lunch from 12:45 p.m. to 1:13 p.m.

12. George Wooten – Methow Transmission Line:

George Wooten submitted comments on the proposal to hire Tetra Tech FW to perform an EIS analysis of transmission line alternatives, and noted there has been no official public scoping to offer an EIS. He believes the need for the project and EIS is based on erroneous and incomplete data, including inaccurate road miles, inaccurate stumpage values, and changing the route location. He offered several examples of less expensive options to answer the need for Methow Valley power.

13. PACE/Maeyowa – Methow Transmission Line:

Maeyowa discussed her concerns with the revised Tetra Tech FW EIS proposal. She asked

1) when the route would be resurveyed and by whom (she found no flagging from the original surveys); 2) why field surveys would not be conducted for the hot rebuild alternative; and 3) what projects Tetra Tech FW has worked on in Eastern Washington -- were they legally challenged and did they stay within budget. She requested a copy of PUD road locations for routes as they become available. She also requested answers to her last public comment documents, and requested additional information on costs incurred over the past six years for the proposed transmission line. She suggested that scoping meetings be held throughout the county (i.e. Twisp, Oroville and the Okanogan area).

14. Tetra-Tech Proposal on EIS:

Ellen Hall of Tetra Tech FW addressed questions on the EIS proposal via conference call. She noted that a draft EIS scheduled prior to the surveys was offered for the PUD to move forward rapidly, however, the better approach would be to conduct the surveys first, incorporate the information in the EIS and then go through the scoping process. The most common scoping process is to bring a consultant on early in the planning phase, have them participate in the scoping process, and help the PUD define alternatives in the EIS and address relevant issues. However, the scoping process can also be handled by having the Forest Service perform the scoping and evaluate the comments, determine issues and alternatives, and then Tetra Tech would be brought on board for an EIS.

Hall also addressed budget/cost overrun concerns, and noted that all options in the comprehensive process have cost implications when the scope of work is adjusted. It was noted that two options regarding the hot Loup-Loup rebuild were not included in the proposal. Hall said the costs for the options were included, but acknowledged the proposal did not including the wording for both options. She asked the PUD to provide a more definitive list of alternatives to be reflected in the cost proposal. In the meantime, she will review the proposal and cost estimate.

Commissioner Bunch noted that a lot more homework was needed before the District moved on the proposal. Commissioner Womack asked what homework was needed, and

Commissioner Bunch replied that a list of alternatives was needed. Commissioner Johnson proposed a special meeting on July 1st to continue the discussion.

Commissioner Womack moved to approve a Contract with Tetra Tech FW for an Environmental Impact Statement and Supporting Studies for the Twisp/Pateros Transmission Line and Substation Project to include an evaluation of the following alternatives: 1) no action; 2) hot rebuild of the existing Loup-Loup transmission line and substation to include approximately 15 miles of new transmission line from Pateros to Gold Creek, as well as a new substation in the Gold Creek area; 3) Loup-Loup hot rebuild with upgrade of distribution between Twisp and Pateros; 4) Pateros/Twisp transmission line and substation; 5) new alignment in valley floor to reduce river crossings, and install substation; and 6) new transmission line that would overbuild or follow existing distribution along the valley floor, and install substation. Commissioner Bunch seconded the motion. Commissioner Johnson noted that a lot more discussion was needed before the District moved on the proposal. Upon the vote, Commissioner Johnson opposed the motion; the motion passed.

15. Resolution No. 1259 – Non-Treaty Storage Agreement:

Manager Warner noted that the District's 20-year Non-Treaty Storage Agreement (NTSA) with BPA terminates on June 30, 2003. Since 1983, there have been substantial increased changes in the river operations because of fish. Under the NTSA, the District could realize a small benefit or a substantial obligation based upon how BPA and British Columbia Hydro operate the non-treaty storage reservoir system. BPA has offered an Assignment Agreement whereby each utility that has generation on the Columbia River can assign their rights and obligations under the NTSA to BPA (the transfer is expected to conclude in June 2004).

Commissioner Bunch moved to adopt Resolution No. 1259 approving the Assignment Agreement, Contract No. 03BP-26095, between the District and BPA, and to authorize the District Manager to sign the Assignment Agreement; Commissioner Womack seconded; motion passed.

16. Election of New Officers:

Commissioner Womack moved that the election of Board officers be the first agenda item at the next Okanogan PUD Board meeting; Commissioner Bunch seconded; Commissioner Johnson opposed; motion passed.

17. Meetings:

Commissioner Womack attended the Public Utility Risk Management Services semi-annual board meeting on June 12, 2003 at Pacific Underwriters in Seattle.

The next Okanogan PUD Board meeting is scheduled for 8:30 a.m., July 8, 2003 at the Okanogan PUD Auditorium.

18. Public Comment:

A letter from Jan Flatten was submitted to the Board, stating that the ratepayers have funded the fiber-optic upgrade and deserve to have reasonable access to that technology. She urged the PUD Board to lower the residential rates to no more than \$25 a month for the consumer, and lower or eliminate the charges to the ISPs such that they can charge no more than \$25 for ISP service.

Gary Ott of the Methow Valley said that rebuilding the existing line is the most logical, and he has seen no reason to believe that the Pateros/Twisp route is the best alternative.

Maeyowa and George Wooten both thanked Commissioner Johnson, and criticized Commissioners Bunch and Womack for their approval of the Tetra Tech FW contract regarding the Methow transmission line EIS.

19. Executive Session – Litigation:

The Board recessed into executive session at 5:22 p.m. to discuss litigation.

The Board reconvened into regular session at 5:50 p.m. There being no further business to discuss, the meeting adjourned at 5:50 p.m.

Donald W. Johnson, President
David A. Womack, Vice-President
Darrel E. Bunch, Secretary